

Message Text

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PAGE 01 SANTIA 04233 181520Z

51

ACTION ARA-20

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INR-11 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 AID-20 COME-00 EB-11 FRB-03 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 AGR-20

INT-08 FEA-02 PC-10 DRC-01 /201 W

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C O N F I D E N T I A L SANTIAGO 4233

E.O. 11652: GDS

TAGS: ECOM, CI

SUBJECT: RECENT CABINET CHANGES AND GOC ECONOMIC POLICY

REF: SANTIAGO 4085

1. SUMMARY: MEMBERS OF GOC CIVILIAN ECONOMIC TEAM ARE VERY PLEASED WITH RECENT CABINET CHANGES WHICH, THEY BELIEVE, HAVE GIVEN THEM ADDITIONAL AUTHORITY IN CARRYING OUT ECONOMIC PROGRAMS-- ALTHOUGH THEY WOULD HAVE PREFERRED EVEN MORE CIVILIAN MINISTERS. THEY CONSIDER AGGREGATE TALENTS OF NEW MILITARY MINISTERS AS SUPERIOR TO THOSE OF THEIR PREDECESSORS. ECONOMIC LEADERS REALIZE THEY MUST SHOW THEIR POLICIES ARE WORKING AND THEY BELIEVE RATE OF INFLATION, PRINCIPAL CURRENT ECONOMIC CONCERN OF JUNTA, WILL SOON BEGIN TO DECREASE. END SUMMARY.

2. DURING PAST WEEK WE HAVE TALKED WITH RAUL SAEZ (NEWLY- APPOINTED MINISTER OF ECONOMIC COORDINATION), JORGE CAUAS (NEW MINISTER OF FINANCE AND FORMER VP OF CENTRAL BANK), SERGIO DE CASTRO (NEW SUBSECRETARY OF MINISTRY OF ECONOMY), AND RICARDO CLARO (NOW RECONFIRMED AS ECONOMIC ADVISER TO FOREIGN MINISTER) CONCERNING SIGNIFICANCE OF RECENT CABINET CHANGES. THEY ALL AGREE
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PAGE 02 SANTIA 04233 181520Z

THAT CHANGES MADE, AS WELL AS RETENTION OF FERNANDO LENIZ AS

MINISTER OF ECONOMY, ARE CLEAR SIGNAL THAT PRESENT ECONOMIC MEASURES WILL BE CONTINUED AND THAT CIVILIAN TEAM HAS FULL BACKING OF JUNTA. THESE SOURCES TOLD US THAT CIVILIANS EMERGED FORM SHAKEUP WITH GREATER ECONOMIC POLICY-MAKING AND IMPLEMENTATION POWER. ALTHOUGH THEY HAD HOPED FOR MORE PORFOLIOS IN CIVILIAN HANDS (FOR EXAMPLE, IN AGRICULTURE, WHICH SAEZ CALLS GOC' BIGGEST ECONOMIC MESS), THEY BELIEVE INCOMING MILITARY PEOPLE ARE NET IMPROVEMENT OVER PREDECESSORS.

3. DECREE PUBLISHED JULY 12 ESTABLISHING SAEZ'S MINISTER OF ECONOMIC COORDINATION GIVES HIM BROAD POWER TO OVERSEE ACTIVITIES OF MINISTRIES OF ECONOMY, FINANCE, MINING, AND AGRICULTURE, AS WELL AS PLANNING OFFICE, TO ASSURE THAT ALL ARE COMPLYING WITH ECONOMIC PROGRAM. NEW MINISTRY WAS ALSO GRANTED AUTHORITY TO ORDER COMPLIANCE WITH POLICIES BY OTHER GOC MINISTRIES AND SERVICES (LATTER PRESUMABLY INCLUDES GOVERNMENT STEEL COMPANY, PETROLEUM REFINING MONOPOLY, ETC.) WITH CENTRAL GOVERNMENT DECISIONS. SAEZ, WHO TOLD US HE WAS RELUCTANT TO LEAVE POSITION AS ECONOMIC ADVISER TO JUNTA, IS NOW ASSEMBLYING STAFF FOR HIS EXPANDED ROLE. SPECIFIC MODES OF OPERATION ARE STILL BEING DEVELOPED. IT WILL BE INTERESTING TO SEE, FOR EXAMPLE, WHETHER GENERAL CANESSA'S ADVISORY COMMITTEE TO THE JUNTA WILL BE LEFT WITH ANY ECONOMIC ROLE.

4. IN OUR DISCUSSIONS, RENEWED SENSE OF CONFIDENCE WAS EVIDENT AMONG ECONOMIC TEAM MEMBERS. THEY WERE PLEASED THAT CIVILIANS HAVE BEEN SHIFTED UPWARD IN GOVERNMENT BUREAUCRACY AND WILL HAVE GREATER AUTHORITY. SEVERAL MENTIONED THAT PABLO BARAONA'S APPOINTMENT AS VP OF CENTRAL BANK WOULD ADD TO CIVILIAN CAPABILITIES (ALTHOUGH NOT EVERYONE HAS HIGH OPINION OF BARAONA'S TALENTS). ARRIVAL OF WELL-KNOWN EXPERT CARLOS MASSAD, WHO EXPECTED LEAVE IMF IN OCTOBER AND RETURN TO SOME HIGH GOC POST, IS ALSO EAGERLY AWAITED. THIRD ELEMENT IN THEIR CONFIDENCE IS THAT THEY BELIEVE WORST OF INFLATION PROBLEM IS OVER. TECHNICIANS NOW ESTIMATE THAT IN SECOND SEMESTER CONSUMER PRICE INDEX WILL RISE 60 0/0 OR LESS, VERSUS 146 0/0 IN JANUARY-JUNE 1974. IF CORRECT, TOTAL 1974 INFLATION WOULD BE IN RANGE OF 270-300 0/0, WITH PROSPECTS FOR MUCH BETTER RECORD IN 1975.

5. COMMENT: EMBASSY ACCEPTS AS VALID ECONOMIC TEAM
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PAGE 03 SANTI 04233 181520Z

ASSESSMENT THAT CABINET RESHUFFLE STRENGTHENED THEIR HAND. WE HAVE LONG FELT THAT SOME KIND OF ECONOMIC SUPER MINISTER WAS NECESSARY AND THAT SAEZ WAS THE LOGICAL CHOICE. WITH APPARENT INCREASE IN CIVILIAN AUTHORITY IN ECONOMIC FIELD, RESPONSIBILITY FOR ECONOMIC PERFORMANCE, FOR BETTER OR WORSE, IS ALMOST ENTIRELY THEIRS.
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